ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Vargas	Analyst:	Roger Lackey	Bill Number:	AB 2875
Related Bills:	See Legislative History	Telephone:	845-3627	Introduced Date:	02-25-2002
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Local Agency Military Base Recovery Areas/Agency Approve 5 Year Extension Of Designation

SUMMARY

This bill would allow all local agency military base recovery areas (LAMBRAs) to be designated for an additional five years.

PURPOSE OF THE BILL

It appears the purpose of the bill is to allow LAMBRAs to be eligible to have the LAMBRA designation period extended.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Qualified zone businesses operating in federal empowerment zones and federal enterprise communities are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the “brownsfields” tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional $20,000 depreciation expense deduction.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as a LAMBRA. Using specified criteria, the California Technology, Trade and Commerce Agency (TTCA) designates LAMBRAs from the applications received from the governing bodies. LAMBRAs are designated for eight years. Currently, there are eight LAMBRAs.

Board Position:			Department Director	Date
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Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within a LAMBRA. These tax incentives include a hiring credit, a sales and use tax credit, a business deduction, and a net operating loss.

THIS BILL

This bill would allow TTCA to extend the designation period of a LAMBRA by five years. It would also require TTCA to:

- develop criteria and procedures for evaluating a LAMBRA's performance and the need for an extension, and
- adopt regulations to implement this bill.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1846 (Correa, et al. 2001/2002) would allow all enterprise zones (EZ) to be designated as an EZ for 20 years. AB 1846 is in the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. However, no information was found stating the length of time other states designate economic development areas.

FISCAL IMPACT

This bill would not impact departmental costs.

ECONOMIC IMPACT

Revenue Estimate

This bill is estimated to impact revenue as shown in the following table.

Revenue Impact Tax Years Beginning After December 31, 2003 Enactment Assumed After June 30, 2002 ($ Millions)			
Fiscal Year	2004-05	2005-06	2006-07
	-0.2	-0.2	-0.3

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses for LAMBRA extensions under the Personal Income and Corporation Tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

According to TTCA, it is expected that all LAMBRAs would apply for extensions. Total revenue losses for the LAMBRAs eligible for tax credits in the 1999 tax year were $657,400. Two LAMBRAs are set to expire in 2004. Therefore the first revenue impact of an extension would occur in the 2004-05 fiscal year. There are currently LAMBRAs that have been designated, but are not yet claiming credits. Therefore, revenue losses are expected to increase as newer LAMBRAs begin to use their credits, and older LAMBRAs receive designation extensions. It is estimated that revenue losses would reach $1 million by 2009-10.

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